

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROWAN COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Rowan County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$12,466,956 as of June 30, 2010. The fiscal court had unrestricted net assets of \$9,802,118 in its governmental activities as of June 30, 2010, with total net assets of \$12,439,002. In its business-type activities, total net cash and cash equivalents were \$19,454 with total net assets of \$27,954. The fiscal court had total debt principal as of June 30, 2010 of \$18,273,277 with \$898,155 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jim Nickell, Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rowan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Rowan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jim Nickell, Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rowan County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2011 on our consideration of Rowan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

June 1, 2011

ROWAN COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Jim Nickell	County Judge/Executive
Ray White	Magistrate
Jerry Flannery	Magistrate
Troy Perkins	Magistrate
Nick Caudill	Magistrate

Other Elected Officials:

Cecil Watkins	County Attorney
Don Hall	Jailer
Jean W. Bailey	County Clerk
Jim Barker	Circuit Court Clerk
Jack Carter	Sheriff
C.J. Baker	Property Valuation Administrator
John P. Northcutt	Coroner

Appointed Personnel:

Kerry M. Jessee	County Treasurer
Charles Stansbury	Occupational Tax Collector
Mary Ann Stevens	Finance Officer

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ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government	
	Governmental	Business-Type
	Activities	Activities
		Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 9,802,118	\$ 19,454
Total Current Assets	9,802,118	19,454
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements	5,228,917	5,228,917
Construction In Progress	6,072,424	6,072,424
Buildings	5,728,913	5,728,913
Equipment	1,249,650	1,249,650
Vehicles	860,083	8,500
Infrastructure	1,770,174	1,770,174
Total Noncurrent Assets	20,910,161	8,500
Total Assets	30,712,279	27,954
LIABILITIES		
Current Liabilities:		
Financing Obligations	283,155	283,155
General Obligation Bonds	25,000	25,000
Revenue Bonds	590,000	590,000
Total Current Liabilities	898,155	898,155
Noncurrent Liabilities:		
Financing Obligations	1,080,122	1,080,122
General Obligation Bonds	4,575,000	4,575,000
Revenue Bonds	11,720,000	11,720,000
Total Noncurrent Liabilities	17,375,122	17,375,122
Total Liabilities	18,273,277	18,273,277
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	2,636,884	8,500
Unrestricted	9,802,118	19,454
Total Net Assets	\$ 12,439,002	\$ 27,954
		\$ 12,466,956

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,562,531	\$ 6,464	\$ 366,115	
Protection to Persons and Property	2,530,171	2,241,751	459,393	
General Health and Sanitation	284,773	92,910	157,749	
Social Services	22,520			
Recreation and Culture	170,686			
Airports	7,500			
Bus Services	20,656			
Roads	1,446,137	1,957	1,295,878	
Interest on Long-Term Debt	731,253			
Capital Projects	62,725			
Total Governmental Activities	8,838,952	2,343,082	2,279,135	
Business-type Activities:				
Jail Canteen	164,164	199,557		
Total Business-type Activities	164,164	199,557		
Total Primary Government	\$ 9,003,116	\$ 2,542,639	\$ 2,279,135	\$ 0

General Revenues:

Taxes:	
Real Property Taxes	
Motor Vehicle Taxes	
Other Taxes	
Excess Fees	
Unrestricted Investment Earnings	
Miscellaneous Revenues	
Transfers	
Total General Revenues	
Change in Net Assets	
Net Assets - Beginning	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,189,952)	\$	\$ (3,189,952)
170,973		170,973
(34,114)		(34,114)
(22,520)		(22,520)
(170,686)		(170,686)
(7,500)		(7,500)
(20,656)		(20,656)
(148,302)		(148,302)
(731,253)		(731,253)
(62,725)		(62,725)
(4,216,735)		(4,216,735)
	35,393	35,393
	35,393	35,393
(4,216,735)	35,393	(4,181,342)
484,151		484,151
82,490		82,490
3,435,380		3,435,380
174,239		174,239
24,818		24,818
99,452		99,452
28,300	(28,300)	
4,328,830	(28,300)	4,300,530
112,095	7,093	119,188
12,326,907	20,861	12,347,768
\$ 12,439,002	\$ 27,954	\$ 12,466,956

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 576,046	\$ 31,340	\$ 57,259	\$ 70,954
Total Assets	<u>576,046</u>	<u>31,340</u>	<u>57,259</u>	<u>70,954</u>
FUND BALANCES				
Reserved for:				
Encumbrances	13,870	25,791	28,443	8,204
Unreserved:				
General Fund	562,176			
Special Revenue Funds		5,549	28,816	62,750
Debt Service Fund				
Total Fund Balances	<u>\$ 576,046</u>	<u>\$ 31,340</u>	<u>\$ 57,259</u>	<u>\$ 70,954</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

County Of Rowan Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 8,931,443</u>	<u>\$ 135,076</u>	<u>\$ 9,802,118</u>
<u>8,931,443</u>	<u>135,076</u>	<u>9,802,118</u>
	8,403	84,711
		562,176
	126,673	223,788
<u>8,931,443</u>		<u>8,931,443</u>
<u>\$ 8,931,443</u>	<u>\$ 135,076</u>	<u>\$ 9,802,118</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 9,802,118
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	24,525,617
Accumulated Depreciation	(3,615,456)
Debt not due and payable in the current period and, therefore, not reported in the funds.	
Financing Obligations	(1,363,277)
Bonds	<u>(16,910,000)</u>
Net Assets Of Governmental Activities	<u>\$ 12,439,002</u>

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 3,668,176	\$ 2,836	\$
In Lieu Tax Payments	55,190	212,084	
Excess Fees	174,238		
Licenses and Permits	149,804		
Intergovernmental	701,772	1,232,170	594,341
Charges for Services	500		119,597
Miscellaneous	124,950	6,820	20,175
Interest	1,918	725	93
Total Revenues	<u>4,876,548</u>	<u>1,454,635</u>	<u>734,206</u>
EXPENDITURES			
General Government	1,206,581		
Protection to Persons and Property	239,999		1,153,056
General Health and Sanitation	252,722		
Social Services	22,520		
Recreation and Culture	170,686		
Airports	7,500		
Bus Services	20,656		
Roads		1,602,485	
Debt Service	407,211	103,749	
Capital Projects	14,150		
Administration	927,386	449,171	260,493
Total Expenditures	<u>3,269,411</u>	<u>2,155,405</u>	<u>1,413,549</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,607,137</u>	<u>(700,770)</u>	<u>(679,343)</u>
Other Financing Sources (Uses)			
Debt Issuance	79,500	153,750	
Discount on Debt Issuance			
Transfers From Other Funds	100,004	558,083	852,465
Transfers To Other Funds	(1,608,996)	(100,004)	(116,796)
Total Other Financing Sources (Uses)	<u>(1,429,492)</u>	<u>611,829</u>	<u>735,669</u>
Net Change in Fund Balances	177,645	(88,941)	56,326
Fund Balances - Beginning (Restated)	398,401	120,281	933
Fund Balances - Ending	<u>\$ 576,046</u>	<u>\$ 31,340</u>	<u>\$ 57,259</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Ambulance Fund	County Of Rowan Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 1,709	\$ 3,672,721
			267,274
			174,238
			149,804
240,500	248,321	103,450	3,120,554
1,221,304			1,341,401
19,332		660	171,937
174	21,703	205	24,818
<u>1,481,310</u>	<u>270,024</u>	<u>106,024</u>	<u>8,922,747</u>
			1,206,581
1,069,541		47,101	2,509,697
		22,720	275,442
			22,520
			170,686
			7,500
			20,656
			1,602,485
49,742	5,150,636		5,711,338
	5,447,672	48,575	5,510,397
499,921	165,107	9,103	2,311,181
<u>1,619,204</u>	<u>10,763,415</u>	<u>127,499</u>	<u>19,348,483</u>
<u>(137,894)</u>	<u>(10,493,391)</u>	<u>(21,475)</u>	<u>(10,425,736)</u>
	16,075,000		16,308,250
	(256,344)		(256,344)
140,000	171,526	32,018	1,854,096
			(1,825,796)
<u>140,000</u>	<u>15,990,182</u>	<u>32,018</u>	<u>16,080,206</u>
2,106	5,496,791	10,543	5,654,470
68,848	3,434,652	124,533	4,147,648
<u>\$ 70,954</u>	<u>\$ 8,931,443</u>	<u>\$ 135,076</u>	<u>\$ 9,802,118</u>

The accompanying notes are an integral part of the financial statements.

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**ROWAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

ROWAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 5,654,470
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	6,075,991
Book Value of Disposed Assets	(12,309)
Depreciation Expense	(534,236)

The issuance of debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Debt Issuance	(16,308,250)
Financing Obligation Principal Payments	396,429
Bond and Bond Anticipation Note Principal Payments	<u>4,840,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 112,095</u></u>
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ROWAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

ROWAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 19,454
Total Current Assets	<u>19,454</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles	
Less Accumulated Depreciation	<u>8,500</u>
Total Noncurrent Assets	<u>8,500</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	8,500
Unrestricted	<u>19,454</u>
Total Net Assets	<u><u>\$ 27,954</u></u>

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 199,557
Total Operating Revenues	<u>199,557</u>
Operating Expenses	
Cost of Sales	98,292
Educational and Recreational	9,322
Depreciation	1,840
Sales Tax	<u>2,343</u>
Total Operating Expenses	<u>111,797</u>
Operating Income	<u>87,760</u>
Nonoperating Revenues (Expenses)	
Inmate Refunds	(52,367)
Transfer to Jail Fund	<u>(28,300)</u>
Total Nonoperating Revenues (Expenses)	<u>(80,667)</u>
Change In Net Assets	7,093
Total Net Assets - Beginning	<u>20,861</u>
Total Net Assets - Ending	<u><u>\$ 27,954</u></u>

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

ROWAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers For Sales	\$ 199,557
Cash Payments To Vendors For Supplies	(98,292)
Cash Payments For Educational And Recreational	(9,322)
Cash Payments For Sales Tax	(2,343)
Net Cash Provided By Operating Activities	<u>89,600</u>
Cash Flows From Noncapital Financing Activities	
Transfers Out to Jail Fund	(28,300)
Inmate Refunds on Accounts	(52,367)
Net Cash Provided (Used) By Noncapital Activities	<u>(80,667)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,933
Cash and Cash Equivalents - July 1, 2009	<u>10,521</u>
Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 19,454</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 87,760
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>1,840</u>
Net Cash Provided By Operating Activities	<u><u>\$ 89,600</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Rowan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

The County of Rowan Properties Corporation

The Rowan County Fiscal Court appoints the voting majority of the County of Rowan Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the County of Rowan Properties Corporation.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Rowan County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Rowan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rowan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The purpose of this fund is to account for ambulance service expenses of the county. The primary sources of revenue for this fund are charges for services, grant funds from state and federal governments, and transfers in from the City of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate an ambulance service.

The County of Rowan Properties Corporation - The purpose of this fund is to account for the activities of the Rowan Properties Corporation, a blended component unit of the county. The Rowan Properties Corporation issued debt in previous years to build a detention facility, for road paving, and for the purchase of an abuse center. In the current year, the Rowan Properties Corporation issued debt for the construction of a new administration building and a new justice center. The Rowan Properties Corporation has entered into a contract, lease, and option with the County. The Department for Local Government does not require the fiscal court to report or budget these funds.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Disaster and Emergency Services Fund, Forest Fire Fund, and Local Government Economic Development Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, State Grants Fund, Disaster and Emergency Services Fund, Forest Fire Fund, and Local Government Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The County of Rowan Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund (Proprietary Fund) or the County of Rowan Properties Fund (Debt Service Fund) to be budgeted.

J. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of Rowan County: The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC), and the Morehead-Rowan County Airport Board.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 5,228,917	\$	\$	\$ 5,228,917
Construction In Progress	624,752	5,447,672		6,072,424
Total Capital Assets Not Being Depreciated	5,853,669	5,447,672		11,301,341
Capital Assets, Being Depreciated:				
Buildings	6,992,441			6,992,441
Equipment	2,142,168	215,279		2,357,447
Vehicles	1,369,578	24,989	(27,450)	1,367,117
Infrastructure	2,119,220	388,051		2,507,271
Total Capital Assets Being Depreciated	12,623,407	628,319	(27,450)	13,224,276
Less Accumulated Depreciation For:				
Buildings	(1,168,824)	(94,704)		(1,263,528)
Equipment	(939,454)	(168,343)		(1,107,797)
Vehicles	(442,053)	(80,122)	15,141	(507,034)
Infrastructure	(546,030)	(191,067)		(737,097)
Total Accumulated Depreciation	(3,096,361)	(534,236)	15,141	(3,615,456)
Total Capital Assets, Being Depreciated, Net	9,527,046	94,083	(12,309)	9,608,820
Governmental Activities Capital Assets, Net	<u>\$ 15,380,715</u>	<u>\$ 5,541,755</u>	<u>\$ (12,309)</u>	<u>\$ 20,910,161</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 26,500	\$	\$	\$ 26,500
Total Capital Assets Being Depreciated	26,500			26,500
Less Accumulated Depreciation For:				
Vehicles	(16,160)	(1,840)		(18,000)
Total Accumulated Depreciation	(16,160)	(1,840)		(18,000)
Total Capital Assets, Being Depreciated, Net	10,340	(1,840)		8,500
Business-type Activities Capital Assets, Net	\$ 10,340	\$ (1,840)	\$ 0	\$ 8,500

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 81,765
Protection to Persons and Property	152,065
General Health and Sanitation	9,331
Roads, Including Depreciation of General Infrastructure Assets	<u>291,075</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 534,236</u>

Business-Type Activities:

Protection to Persons and Property	<u>\$ 1,840</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,840</u>

Note 4. Short-term Debt

In August 2009, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$55,000 with the Kentucky Bank. The agreement requires monthly payments due starting September 2009, with an interest rate of 3.50 percent. The principal balance on the lease was \$51,578 as of June 30, 2010. This debt is paid by the Rowan County Community Recycling Center.

Changes In Short-term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 0	\$ 55,000	\$ 3,422	\$ 51,578	\$ 51,578
Governmental Activities					
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 55,000</u>	<u>\$ 3,422</u>	<u>\$ 51,578</u>	<u>\$ 51,578</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt

A. County of Rowan Properties Corporation – Detention Center

On September 1, 1997, the County of Rowan Properties Corporation issued \$1,285,000 of revenue bonds for the defeasance of the 1991 bond series issue. The 1991 bonds were originally issued to finance construction of the Rowan County Detention Center. The refunding bonds were dated September 1, 1997, with the requirement that semiannual interest payments be made on March 1 and September 1 of each year commencing March 1, 1998. The agreement has a variable interest rate of 4.95 to 5.05 percent. The bonds will mature March 1, 2012. As of June 30, 2010, the principal amount outstanding was \$230,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 110,000	\$ 11,616
2012	120,000	6,060
Totals	<u>\$ 230,000</u>	<u>\$ 17,676</u>

B. General Obligation Bonds – Administration Building

On January 5, 2010, Rowan County issued \$3,995,000 of general obligation bonds for the building of a new administration building. The bonds require the semiannual interest and principal payments be made on June 1 and December 1 of each year commencing on June 1, 2010. One principal payment will be due on December 1 of each year commencing December 1, 2011. The agreement has a variable interest rate of 1.75 to 4.625 percent. The bonds will mature December 1, 2029. As of June 30, 2010, the principal amount outstanding was \$3,995,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 0	\$ 134,951
2012	45,000	134,558
2013	1,790,000	111,789
2014	90,000	88,289
2015	95,000	85,834
2016-2020	525,000	378,788
2021-2025	645,000	259,831
2026-2030	805,000	96,457
Totals	<u>\$ 3,995,000</u>	<u>\$ 1,290,497</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

C. County of Rowan Public Properties Corporation – First Mortgage Revenue Bonds – Justice Center

On July 1, 2009, Rowan County issued \$12,080,000 of first mortgage revenue bonds for the building of a new judicial building. The bonds require the semiannual interest and principal payments be made on February 1 and August 1 of each year commencing on February 1, 2010. One principal payment will be due on August 1 of each year commencing August 1, 2011. The agreement has a variable interest rate of 2.00 to 4.25 percent. The bonds will mature August 1, 2028. As of June 30, 2010, the principal amount outstanding was \$12,080,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 480,000	\$ 420,892
2012	485,000	411,243
2013	495,000	401,442
2014	510,000	390,755
2015	520,000	377,868
2016-2020	2,855,000	1,636,944
2021-2025	3,420,000	1,063,468
2026-2029	3,315,000	289,530
Totals	<u>\$ 12,080,000</u>	<u>\$ 4,992,142</u>

D. General Obligation Bonds – Old Courthouse Restoration

On October 11, 2006, Rowan County issued \$675,000 of general obligation improvement bonds for the renovation of the old courthouse. The bonds require annual principal due November 1 commencing November 1, 2007 and semiannual interest payments due November 1 and May 1 of each year commencing May 1, 2007. The agreement has variable interest rate. The principal balance was \$605,000 as of June 30, 2010. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 25,000	\$ 24,885
2012	25,000	23,835
2013	25,000	22,785
2014	30,000	21,630
2015	30,000	20,370
2016-2020	165,000	81,914
2021-2025	210,000	42,600
2026-2027	95,000	4,095
Totals	<u>\$ 605,000</u>	<u>\$ 242,114</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

E. First Mortgage Revenue Bonds Anticipation Notes, Series 2008

In April 2008, The County of Rowan Public Properties Corporation, a component unit of the Rowan County Fiscal Court, issued \$4,500,000 in First Mortgage Revenue Bonds Anticipation Notes, Series 2008. The proceeds from these notes were used in anticipation of bond proceeds to begin construction of the Judicial Center. These notes are scheduled to mature on April 1, 2010 and carry an interest rate of 2.53%. Semiannual interest payments are required in October and April and the full principal amount is due in April 2010. As of June 30, 2010, the principal balance was paid in full.

F. First Mortgage Revenue Bonds Anticipation Notes, Series 2009

In May 2009, The County of Rowan Public Properties Corporation, a component unit of the Rowan County Fiscal Court, issued \$210,000 in First Mortgage Revenue Bonds Bond Anticipation Notes, Series 2009. The proceeds from these notes were used in anticipation of bond proceeds to begin construction of the Administrative Building. These notes are scheduled to mature in June 1, 2010 and carry an interest rate of 2.25%. Semiannual interest payments are required in December and June and the full principal amount is due in June 2010. As of June 30, 2010, the bond was paid in full.

G. Financing Obligation – Airport Land Acquisition

Rowan County entered into a \$1,500,000 lease agreement with Kentucky Area Development Districts Financing Trust for airport land acquisition. The lease requires that semiannual interest payments due on December 1 and June 1 of each year commencing December 1, 2000. One principal payment will be due on June 1 of each year commencing June 1, 2001. The lease agreement ends June 1, 2010. The agreement has a variable interest rate of 4.75 to 5.1 percent. The Morehead – Rowan County Airport Board made a resolution that they would provide funds to the Rowan County Fiscal Court to make these payments. The Morehead – Rowan County Airport Board's ability to provide this funding is contingent on the Transportation Cabinet's Kentucky Aviation Economic Development Fund continuing to provide annual assistance to them. As of June 30, 2010, the principal balance was paid in full.

H. Financing Obligation – Fire Truck Acquisition

Rowan County entered into a \$170,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purchase of a fire truck. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing on June 1, 2002. The agreement has a variable interest rate of 3.9 to 4.2 percent. The lease agreement ends June 1, 2011. The principal on the lease was \$20,000 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 20,000	\$ 840
Totals	<u>\$ 20,000</u>	<u>\$ 840</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

I. Financing Obligation – Old Courthouse Restoration Project

On March 1, 2005, Rowan County entered into a \$1,000,000 lease agreement with Kentucky Area Development Districts Financing Trust for restoration and renovation of the Old Rowan County Courthouse. This lease requires that semiannual interest payments be made on March 1 and September 1 of each year through March 1, 2024. One principal is due on September 1 of each year starting on September 1, 2005. The agreement has a variable interest rate of 2.2 to 5.3 percent. The principal on the lease was \$830,000 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 40,000	\$ 42,845
2012	40,000	40,945
2013	40,000	39,045
2014	45,000	37,020
2015	45,000	34,883
2016-2020	270,000	134,237
2021-2025	350,000	49,791
Totals	<u>\$ 830,000</u>	<u>\$ 378,766</u>

J. Financing Obligation – Road Equipment

Rowan County entered into a \$260,000 lease agreement with Kentucky Association of Counties for the purchase of road equipment to be paid in full on July 20, 2011. The lease requires that annual principal payments be made on July 20 of each year commencing July 20, 2006. Interest payments are required to be paid monthly commencing on June 20, 2006. The agreement has an interest rate of 3.51 percent. The principal balance on the lease was \$49,920 as of June 30, 2010. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 49,920	\$ 202
Totals	<u>\$ 49,920</u>	<u>\$ 202</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

K. Financing Obligation – Ambulance

Rowan County entered into a \$225,864 lease agreement with Kentucky Association of Counties for the purchase of ambulances to be paid in full on January 20, 2013. The lease requires that annual principal payments be made on January 20 of each year commencing January 20, 2009. Interest payments are required to be paid monthly commencing on April 20, 2008. The agreement has a variable interest rate. The principal balance on the lease was \$140,864 as of June 30, 2010. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 45,000	\$ 4,961
2012	47,000	3,103
2013	48,864	1,166
Totals	<u>\$ 140,864</u>	<u>\$ 9,230</u>

L. Financing Obligation – Dump Trucks

Rowan County entered into a \$134,200 lease agreement with Kentucky Area Development Districts Financing Trust for the purchase of dump trucks to be paid in full on January 20, 2013. The lease requires that annual principal payments be made on January 20 of each year commencing January 20, 2009. Interest payments are required to be paid monthly commencing on April 20, 2008. The agreement has a variable interest rate. The principal balance on the lease was \$83,200 as of June 30, 2010. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 27,000	\$ 2,923
2012	28,000	1,812
2013	28,200	673
Totals	<u>\$ 83,200</u>	<u>\$ 5,408</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

M. Financing Obligation – Dump Trucks

Rowan County entered into a \$153,750 lease agreement with Kentucky Area Development Districts Financing Trust for the purchase of dump trucks to be paid in full on June 20, 2017. The lease requires that monthly principal and interest payments be made commencing August 20, 2009. The agreement has a variable interest rate. The principal balance on the lease was \$138,183 as of June 30, 2010. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 17,597	\$ 5,124
2012	18,261	4,470
2013	19,061	3,672
2014	19,687	3,051
2015	20,441	2,301
2016-2020	43,136	2,241
Totals	<u>\$ 138,183</u>	<u>\$ 20,859</u>

N. Financing Obligation – Sheriff Vehicles

Rowan County entered into a \$30,433 lease agreement with Kentucky Association of Counties for the purchase of Sheriff vehicles to be paid in full on January 20, 2011. The lease requires that annual principal payments be made on January 20 of each year commencing January 20, 2008. Interest payments are required to be paid monthly commencing on January 20, 2008. The agreement has an interest rate of 4.25 percent. The principal balance on the lease was \$10,433 as of June 30, 2010. This debt is paid by the Rowan County Sheriff's Office.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 10,433	\$ 326
Totals	<u>\$ 10,433</u>	<u>\$ 326</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

O. Financing Obligation – Sheriff Vehicles

In January 2008, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$26,000 with the Kentucky Association of Counties Leasing Trust for a Sheriff's vehicle. The agreement was to be paid in full on January 20, 2009. In January 2009, the lease was refinanced and is to be paid in full on January 20, 2013. The lease requires that principal payments be paid monthly commencing on January 20, 2009. Interest payments are required to be paid monthly commencing on February 20, 2008. The agreement has an interest rate of 4.083 percent. The principal balance on the lease was \$17,447 as of June 30, 2010. This debt is paid by the Rowan County Sheriff's Office.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 6,350	\$ 555
2012	6,609	300
2013	4,488	53
Totals	<u>\$ 17,447</u>	<u>\$ 908</u>

P. Financing Obligation – Sheriff Vehicles

In January 2010, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$24,500 with the Kentucky Association of Counties Leasing Trust for a Sheriff's vehicle. The lease requires that principal payments be paid monthly commencing on January 20, 2010. Interest payments are required to be paid monthly commencing on January 20, 2010. The agreement has an interest rate of 1.850 percent. The principal balance on the lease was \$21,652 as of June 30, 2010. This debt is paid by the Rowan County Sheriff's Office.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 5,873	\$ 985
2012	6,119	740
2013	6,374	485
2014	3,286	144
Totals	<u>\$ 21,652</u>	<u>\$ 2,354</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 335,000	\$12,080,000	\$ 105,000	\$12,310,000	\$ 590,000
General Obligation Bonds	630,000	3,995,000	25,000	4,600,000	25,000
Revenue Bond Anticipation Notes	4,710,000		4,710,000		
Financing Obligations	<u>1,526,456</u>	<u>178,250</u>	<u>393,007</u>	<u>1,311,699</u>	<u>231,577</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 7,201,456</u>	<u>\$16,253,250</u>	<u>\$ 5,233,007</u>	<u>\$18,221,699</u>	<u>\$ 846,577</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent. The County's contribution for FY 2008 was \$705,338, FY 2009 was \$510,409 and FY 10 was \$708,680.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Related Party Transactions

The County entered into the following related party transaction during the 2010 fiscal year:

The County expended \$9,750 to Caudill's Excavating. Caudill's Excavating is owned by the brother of Nick Caudill, a magistrate of the Rowan County Fiscal Court.

Note 8. Deferred Compensation

The Rowan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862.

Note 9. Insurance

For the fiscal year ended June 30, 2010, Rowan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,649,070	\$ 3,649,070	\$ 3,668,176	\$ 19,106
In Lieu Tax Payments	95,000	95,000	55,190	(39,810)
Excess Fees	68,495	139,639	174,238	34,599
Licenses and Permits	132,300	132,300	149,804	17,504
Intergovernmental Revenue	454,060	604,473	679,910	75,437
Charges for Services		500	500	
Miscellaneous	58,700	103,892	124,950	21,058
Interest	2,500	2,500	1,918	(582)
Total Revenues	4,460,125	4,727,374	4,854,686	127,312
EXPENDITURES				
General Government	1,167,363	1,213,197	1,206,581	6,616
Protection to Persons and Property	255,899	299,313	215,499	83,814
General Health and Sanitation	204,176	222,526	197,722	24,804
Social Services	27,000	27,000	22,520	4,480
Recreation and Culture	156,500	156,500	170,686	(14,186)
Airports	7,500	7,500	7,500	
Bus Services	20,656	20,656	20,656	
Debt Service	347,776	356,276	440,079	(83,803)
Capital Projects	45,000	45,000	14,150	30,850
Administration	922,632	1,123,783	927,386	196,397
Total Expenditures	3,154,502	3,471,751	3,222,779	248,972
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,305,623	1,255,623	1,631,907	376,284
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	149,017	149,017	100,004	(49,013)
Transfers To Other Funds	(1,654,640)	(1,654,640)	(1,554,266)	100,374
Total Other Financing Sources (Uses)	(1,505,623)	(1,505,623)	(1,454,262)	51,361
Net Changes in Fund Balance	(200,000)	(250,000)	177,645	427,645
Fund Balance - Beginning	200,000	250,000	398,401	148,401
Fund Balance - Ending	\$ 0	\$ 0	\$ 576,046	\$ 576,046

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$	\$ 2,836	\$ 2,836	\$
In Lieu Tax Payments	230,000	230,000	212,084	(17,916)
Intergovernmental Revenue	954,743	1,317,225	1,232,170	(85,055)
Miscellaneous	5,000	5,000	6,820	1,820
Interest	2,000	2,000	725	(1,275)
Total Revenues	1,191,743	1,557,061	1,454,635	(102,426)
EXPENDITURES				
Roads	1,261,152	1,780,220	1,602,485	177,735
Debt Service	82,558	82,558	103,749	(21,191)
Administration	457,099	457,099	449,171	7,928
Total Expenditures	1,800,809	2,319,877	2,155,405	164,472
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(609,066)	(762,816)	(700,770)	62,046
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(149,017)	(149,017)	(100,004)	49,013
Transfers From Other Funds	508,083	508,083	558,083	50,000
Debt Issuance-Road Department		153,750	153,750	
Total Other Financing Sources (Uses)	359,066	512,816	611,829	99,013
Net Changes in Fund Balance	(250,000)	(250,000)	(88,941)	161,059
Fund Balance - Beginning	250,000	250,000	120,281	(129,719)
Fund Balance - Ending	\$ 0	\$ 0	\$ 31,340	\$ 31,340

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 526,600	\$ 526,600	\$ 622,641	\$ 96,041
Charges for Services	116,500	117,824	119,597	1,773
Miscellaneous	21,000	21,000	20,175	(825)
Interest	300	300	93	(207)
Total Revenues	664,400	665,724	762,506	96,782
EXPENDITURES				
Protection to Persons and Property	1,184,164	1,185,488	1,153,056	32,432
Debt Service	115,101	115,101	116,796	(1,695)
Administration	309,300	309,300	260,493	48,807
Total Expenditures	1,608,565	1,609,889	1,530,345	79,544
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(944,165)	(944,165)	(767,839)	176,326
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	939,165	939,165	824,165	(115,000)
Total Other Financing Sources (Uses)	939,165	939,165	824,165	(115,000)
Net Changes in Fund Balance	(5,000)	(5,000)	56,326	61,326
Fund Balance - Beginning	5,000	5,000	933	(4,067)
Fund Balance - Ending	\$ 0	\$ 0	\$ 57,259	\$ 57,259

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 198,000	\$ 198,000	\$ 240,500	\$ 42,500
Charges for Services	1,122,095	1,122,095	1,221,304	99,209
Miscellaneous	17,000	22,439	19,332	(3,107)
Interest	300	300	174	(126)
Total Revenues	<u>1,337,395</u>	<u>1,342,834</u>	<u>1,481,310</u>	<u>138,476</u>
EXPENDITURES				
Protection to Persons and Property	955,131	1,029,418	1,069,541	(40,123)
Debt Service	49,742	49,742	49,742	
Administration	506,977	506,977	499,921	7,056
Total Expenditures	<u>1,511,850</u>	<u>1,586,137</u>	<u>1,619,204</u>	<u>(33,067)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(174,455)</u>	<u>(243,303)</u>	<u>(137,894)</u>	<u>105,409</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>174,455</u>	<u>174,455</u>	<u>140,000</u>	<u>(34,455)</u>
Total Other Financing Sources (Uses)	<u>174,455</u>	<u>174,455</u>	<u>140,000</u>	<u>(34,455)</u>
Net Changes in Fund Balances		(68,848)	2,106	70,954
Fund Balances - Beginning		<u>68,848</u>	<u>68,848</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,954</u>	<u>\$ 70,954</u>

ROWAN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. General Fund Reconciliation

**Reconciliation To Statement Of Revenues,
Expenditures And Changes In Fund Balance**

Total Revenues - Budgetary Basis	\$ 4,854,686
Add: Principal Payments Made By Sheriff for Vehicle Leases	18,440
Add: Principal Payments Made By Recycling Center for Lease	3,422
Total Revenues - Modified Cash Basis	<u>\$ 4,876,548</u>
 Total Expenditures - Budgetary Basis	 \$ 3,222,779
Add: Purchase of Vehicles for Sheriff and Recycling Center	79,500
Add: Principal Payments Made By Sheriff for Vehicle Leases	18,440
Add: Principal Payments Made By Recycling Center for Lease	3,422
Less: Debt Service	(54,730)
Total Expenditures - Modified Cash Basis	<u>\$ 3,269,411</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ (1,454,262)
Add: Debt Issuance for Sheriff and Recycling Center	79,500
Less: Transfers To PPC	(54,730)
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (1,429,492)</u>

ROWAN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2010
(Continued)

Note 3. Jail Fund Reconciliation

**Reconciliation To Statement Of Revenues,
Expenditures And Changes In Fund Balance**

Total Revenues - Budgetary Basis	\$ 762,506
Less: Transfers From Jail Canteen	(28,300)
Total Revenues - Modified Cash Basis	<u>\$ 734,206</u>
 Total Expenditures - Budgetary Basis	 \$ 1,530,345
Less: Debt Service	(116,796)
Total Expenditures - Modified Cash Basis	<u>\$ 1,413,549</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ 824,165
Add: Transfers From Jail Canteen	28,300
Less: Transfers To PPC	(116,796)
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 735,669</u>

**ROWAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

ROWAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Local Government Economic Assistance Fund	State Grants Fund	Disaster And Emergency Services Fund	Local Government Economic Development Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 62,975	\$ 5,254	\$ 3,327	\$ 63,520	\$ 135,076
Total Assets	<u>62,975</u>	<u>5,254</u>	<u>3,327</u>	<u>63,520</u>	<u>135,076</u>
FUND BALANCES					
Reserved for:					
Encumbrances	8,228		175		8,403
Unreserved:					
Special Revenue Funds	<u>54,747</u>	<u>5,254</u>	<u>3,152</u>	<u>63,520</u>	<u>126,673</u>
Total Fund Balances	<u>\$ 62,975</u>	<u>\$ 5,254</u>	<u>\$ 3,327</u>	<u>\$ 63,520</u>	<u>\$ 135,076</u>

The accompanying notes are an integral part of the financial statements.

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ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Local Government Economic Assistance Fund	State Grants Fund	Disaster And Emergency Services Fund	Forest Fire Fund
REVENUES				
Taxes	\$	\$	\$	\$ 1,709
Intergovernmental	65,665	15,229	22,556	
Miscellaneous		660		
Interest	157		48	
Total Revenues	<u>65,822</u>	<u>15,889</u>	<u>22,604</u>	<u>1,709</u>
EXPENDITURES				
Protection to Persons and Property			44,550	2,551
General Health and Sanitation		22,720		
Capital Projects	48,575			
Administration			9,103	
Total Expenditures	<u>48,575</u>	<u>22,720</u>	<u>53,653</u>	<u>2,551</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>17,247</u>	<u>(6,831)</u>	<u>(31,049)</u>	<u>(842)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			31,185	833
Total Other Financing Sources (Uses)			<u>31,185</u>	<u>833</u>
Net Change in Fund Balances	17,247	(6,831)	136	(9)
Fund Balances - Beginning	45,728	12,085	3,191	9
Fund Balances - Ending	<u>\$ 62,975</u>	<u>\$ 5,254</u>	<u>\$ 3,327</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010
(Continued)

Local Government Economic Development Fund	Total Non-Major Governmental Funds
\$	\$ 1,709
	103,450
	660
	205
	<u>106,024</u>
	47,101
	22,720
	48,575
	9,103
	<u>127,499</u>
	<u>(21,475)</u>
	32,018
	<u>32,018</u>
	10,543
63,520	124,533
<u>\$ 63,520</u>	<u>\$ 135,076</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Nickell, Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 1, 2011. Rowan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rowan County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rowan County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rowan County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rowan County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 1, 2011

ROWAN COUNTY FISCAL COURT

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**For The Fiscal Year Ended
June 30, 2010**

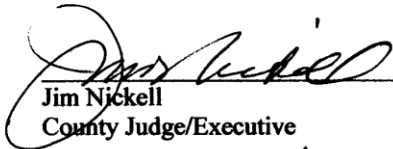
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

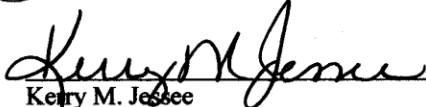
ROWAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Rowan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Jim Nickell
County Judge/Executive



Kerry M. Jesse
County Treasurer

